



DEPARTMENT OF ENERGY

Western Area Power Administration

Loveland Area Projects-Rate Order No. WAPA-202

AGENCY: Western Area Power Administration, DOE.

ACTION: Notice of proposed firm electric service and sale of surplus products formula rates.

SUMMARY: The Rocky Mountain Region (RMR) of the Western Area Power Administration (WAPA) proposes revised formula rates for the Loveland Area Projects (LAP) firm electric service and sale of surplus products. LAP consists of the Fryingpan-Arkansas Project (Fry-Ark) and the Pick-Sloan Missouri Basin Program (P-SMBP)--Western Division (WD), which were integrated for marketing and rate-making purposes in 1989. The existing formula rates for these services, under Rate Schedules L-F11 and L-M2, expire on December 31, 2022. RMR is proposing to update the formula rates for firm electric service under Rate Schedule L-F12 and sale of surplus products under Rate Schedule L-M3, effective January 1, 2023, through December 31, 2027.

DATES: A consultation and comment period will begin [INSERT DATE OF PUBLICATION IN THE *FEDERAL REGISTER*] and end [INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. RMR will present a detailed explanation of the proposed LAP formula rates and other modifications at a public information forum that will be held on June 15, 2022, at 8:30 a.m. MDT to no later than 10:30 a.m. MDT. RMR will host a public comment forum on June 29, 2022, at 11:00 a.m. MDT to no later than noon MDT.

The public information forum and the public comment forum will be conducted via WebEx. Instructions for participating in the forums will be posted on RMR's website at least 14 days prior to the public information and comment forums at:

www.wapa.gov/regions/RM/rates/Pages/2023-Rate-Adjustment---Firm-Power.aspx.

RMR will accept comments any time during the consultation and comment period.

ADDRESSES: Written comments and requests to be informed of Federal Energy Regulatory Commission (FERC) actions concerning the proposed formula rates submitted by RMR to FERC for approval should be sent to: Barton V. Barnhart, Regional Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538-8986, or e-mail lapfirmadj@wapa.gov. RMR will post information about the proposed formula rates and written comments received to its website at:

www.wapa.gov/regions/RM/rates/Pages/2023-Rate-Adjustment---Firm-Power.aspx.

FOR FURTHER INFORMATION CONTACT: Sheila D. Cook, Rates Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538-8986, telephone (970) 685-9562 or e-mail scook@wapa.gov or lapfirmadj@wapa.gov.

SUPPLEMENTARY INFORMATION:

On May 24, 2018, FERC confirmed and approved Rate Schedule L-F11 and Rate Schedule L-M2, under Rate Order No. WAPA-179, on a final basis through December 31, 2022.¹ These schedules apply to firm electric service and the sale of surplus products.

RMR intends the proposed formula rates to go into effect January 1, 2023. The proposed formula rates would remain in effect until December 31, 2027, or until WAPA supersedes or changes the formula rates through another public rate process pursuant to 10 CFR part 903, whichever occurs first.

The proposed formula rates would provide sufficient revenue to recover annual operation, maintenance, and replacement (OM&R) expenses, interest expense, irrigation assistance, and capital repayment requirements while ensuring repayment of the project within the cost recovery criteria set forth in Department of Energy (DOE) Order RA 6120.2. For more information on the proposed rates, please see the customer brochure located on RMR's website at:

¹ Order Confirming and Approving Rate Schedules on a Final Basis, FERC Docket No. EF18-3-000, 163 FERC ¶ 62,115 (2018).

Firm Electric Service

The P-SMBP and the Fry-Ark Fiscal Year 2021 Power Repayment Studies (PRSs) revenue requirements and current water conditions are the determining factors for this proposed rate adjustment.

The base component costs for the P-SMBP have increased primarily due to: (1) increased OM&R from WAPA and the generating agencies; (2) increased purchase power, including during the severe winter weather event in February 2021 (Winter Storm Uri); (3) pricing volatility; and (4) the loss of certain balancing authority revenues for services that WAPA no longer provides after joining the Western Energy Imbalance Service Market. Winter Storm Uri was not a water or generation issue; therefore, its costs only impact the base component.

The base component costs for the Fry-Ark have increased primarily due to: (1) increased OM&R from both WAPA and the Bureau of Reclamation (Reclamation); (2) increased transmission and ancillary services costs; and (3) changes in costs related to Reclamation's Mount Elbert Rehabilitation project. Increased purchase power and price volatility are also causing upward pressure.

The driver behind the P-SMBP drought adder component increase is the Army Corps of Engineers Annual Operating Plan projecting less than average generation for the next several years in the P-SMBP mainstem dams. Uncertainties with water inflows, hydro generation, and replacement energy prices continue to pose potential risks for meeting firm power contractual commitments.

The net effect of these adjustments to the base and drought adder components results in an overall increase to the LAP rate. A comparison of the current and proposed revenue requirements is shown in Table 1:

Table 1 - Summary of Current and Proposed Revenue Requirements

Firm Electric Service	Current Under L-F11 As of January 1, 2018 (in million \$)	Proposed Under L-F12 As of January 1, 2023 (in million \$)	Percent Change
LAP Revenue Requirement	\$64.1	\$74.7	16.5%
Pick-Sloan--WD ^{1/} Fry-Ark	\$50.8 \$13.3	\$58.6 \$16.1	15.4% 21.1%

^{1/} Additional information on the overall P-SMBP PRS and charge components can be found under Rate Order No. WAPA-203 and on WAPA's Upper Great Plains Region's website at: www.wapa.gov/regions/UGP/Rates/Pages/2023-firm-rate-adjustment.aspx.

Under the current rate methodology, rates for LAP firm electric service are designed to recover an annual revenue requirement that includes investment repayment, interest, purchase power, OM&R, and other expenses within the allowable period. The annual revenue requirement continues to be allocated equally between capacity and energy.

A comparison of the current and proposed rates is shown in Table 2:

Table 2 - Summary of Current and Proposed Rates

Firm Electric Service	Current Under L-F11 As of January 1, 2018	Proposed Under L-F12 As of January 1, 2023	Percent Change
LAP Composite Rate	31.44	36.61	16.4%
Firm Capacity Rate (\$/kilowatt-month)	\$4.12	\$4.80	16.5%
Firm Energy Rate (mills/kilowatt-hour)	15.72	18.31	16.5%

As a part of the current and proposed rate schedules, RMR provides for a formula-based adjustment of the drought adder component, with an annual increase of up to 2 mills per kilowatt-hour (kWh) each year. The 2 mills/kWh cap places a limit on the amount the drought adder component can be adjusted upward relative to associated drought costs included in the drought adder formula rate for any one-year cycle. Continuing to identify the firm electric service revenue requirement using base and drought adder components will assist RMR in the

presentation of future impacts of droughts, demonstrate repayment of drought-related costs in the PRSs, and allow RMR to be more responsive to changes caused by drought-related expenses. RMR will continue to charge and bill its customers firm electric service rates for energy and capacity, which are the sum of the base and drought adder components.

The proposed adjustment updates the base component with present costs from a revenue requirement of \$64.1 million to \$67.8 million and increases the drought adder component revenue requirement. For rate year 2023 the drought adder revenue requirement increases from zero to \$6.8 million.²

A comparison of the current and proposed components is shown in Table 3:

Table 3 – Summary of LAP Charge Components

	Current Charges Under Rate Schedule L-F11 As of January 1, 2018			Proposed Charges Under Rate Schedule L-F12 As of January 1, 2023			Percent Change
	Base Component	Drought Adder Component	Total Charge	Base Component	Drought Adder Component	Total Charge	
Firm Capacity (\$/kilowatt-month)	\$4.12	\$0	\$4.12	\$4.36	\$0.44	\$4.80	16.5%
Firm Energy (mills/kWh)	15.72	0	15.72	16.63	1.68	18.31	16.5%

Sale of Surplus Products

The Sale of Surplus Products rate schedule is formula-based, providing for LAP Marketing to sell LAP surplus energy and capacity products. If LAP surplus products are available, as specified in the rate schedule, the charge will be based on market rates plus administrative costs. The customer will be responsible for acquiring transmission service necessary to deliver the product(s) for which a separate charge may be incurred. The proposed Rate Schedule, L-M3, continues to allow for the sale of energy, frequency response, regulation, and reserves.

Legal Authority

² The exact values are \$64,143,960, \$67,839,200, and \$6,838,720 respectively.

Existing DOE procedures for public participation in power and transmission rate adjustments (10 CFR part 903) were published on September 18, 1985, and February 21, 2019.³ The proposed action is a major rate adjustment, as defined by 10 CFR 903.2(d). In accordance with 10 CFR 903.15(a) and 10 CFR 903.16(a), RMR will hold public information and public comment forums for this rate adjustment. RMR will review and consider all timely public comments at the conclusion of the consultation and comment period and adjust the proposal as appropriate. The rates will then be approved on an interim basis.

WAPA is establishing the formula rates for LAP in accordance with section 302 of the DOE Organization Act (42 U.S.C. 7152).⁴

By Delegation Order No. 00-037.00B, effective November 19, 2016, the Secretary of Energy delegated: (1) the authority to develop power and transmission rates to WAPA's Administrator; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary of Energy; and (3) the authority to confirm, approve, and place into effect on a final basis, or to remand or disapprove such rates to FERC. By Delegation Order No. S1-DEL-S4-2022, effective March 14, 2022, the Secretary of Energy also delegated the authority to confirm, approve, and place such rates into effect on an interim basis to the Under Secretary for Science (and Innovation). By Redelegation Order No. S4-DEL-OE1-2021-2, effective December 8, 2021, the Under Secretary for Science (and Innovation) redelegated the authority to confirm, approve, and place such rates into effect on an interim basis to the Assistant Secretary for Electricity. By Redelegation Order No. 00-002.10-05, effective July 8, 2020, the Assistant Secretary for Electricity further redelegated the authority to confirm, approve, and place such rates into effect on an interim basis to WAPA's Administrator. This redelegation order, despite predating the December 2021 and March 2022 delegations, remains valid.

³ 50 FR 37835 (Sept. 18, 1985) and 84 FR 5347 (Feb. 21, 2019).

⁴ This Act transferred to, and vested in, the Secretary of Energy the power marketing functions of the Secretary of the Department of the Interior and Bureau of Reclamation (Reclamation) under the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent laws, particularly section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)) and section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s); and other acts that specifically apply to the projects involved.

Availability of Information

All brochures, studies, comments, letters, memorandums, or other documents that RMR initiates or uses to develop the proposed formula rates will be available for inspection and copying at the Rocky Mountain Regional Office located at 5555 East Crossroads Boulevard, Loveland, Colorado. Many of these documents and supporting information are also available on RMR's website at: www.wapa.gov/regions/RM/rates/Pages/2023-Rate-Adjustment---Firm-Power.aspx.

RATEMAKING PROCEDURE REQUIREMENTS:

Environmental Compliance

WAPA is in the process of determining whether an environmental assessment or an environmental impact statement should be prepared or if this action can be categorically excluded from those requirements.⁵

Determination Under Executive Order 12866

WAPA has an exemption from centralized regulatory review under Executive Order 12866; accordingly, no clearance of this notice by the Office of Management and Budget is required.

Signing Authority

This document of the Department of Energy was signed on May 4, 2022, by Tracey A. LeBeau, Administrator, Western Area Power Administration, pursuant to delegated authority from the Secretary of Energy. That document, with the original signature and date, is maintained by DOE. For administrative purposes only, and in compliance with requirements of the Office of the Federal Register, the undersigned DOE Federal Register Liaison Officer has been authorized to sign and submit the document in electronic format for publication, as an official document of the Department of Energy. This administrative process in no way alters the legal effect of this document upon publication in the *Federal Register*.

⁵ In compliance with the National Environmental Policy Act (NEPA) of 1969, as amended, 42 U.S.C. 4321-4347; the Council on Environmental Quality Regulations for implementing NEPA (40 CFR parts 1500-1508); and DOE NEPA Implementing Procedures and Guidelines (10 CFR part 1021).

Signed in Washington, DC, on May 18, 2022.

Treena V. Garrett,

Federal Register Liaison Officer,

U.S. Department of Energy.

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